

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 DODE-00

PM-03 H-02 INR-07 L-02 NSAE-00 PA-02 PRS-01 USIA-15

COME-00 XMB-04 FRB-01 /102 W
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P R 280925Z FEB 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 9774

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

UNCLAS ROME 2925

E.O. 11652 N/A

TAGS: EFIN, IT

SUBJ: PARTIAL REPAYMENT OF GERMAN GOLD LOAN

REF: ROME 12008

1. ON FEBRUARY 27 MINISTER OF TREASURY COLOMBO ANNOUNCED
THAT ITALY WOULD REPAY DLR 500 MILLION OF DLR 2 BILLION GERMAN
GOLD COLLATERAL LOAN WHICH FALLS DUE ON MARCH 5.

CORRESPONDING ONE-QUARTER OF GOLD COLLATERAL EARMARKED AS
GUARANTEE FOR LOAN WILL BE RELEASED. PARTIAL REPAYMENT
OF LOAN IS LINKED WITH FOURTH AND FINAL IMF STANDBY DRAWING
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OF SDR 300 MILLION (ABOUT DLR 375 MILLION).

2. CONTINUING IMPROVEMENT IN ITALIAN BALANCE OF PAYMENTS HAS MADE IT POSSIBLE FOR ITALY TO MAKE PARTIAL REPAYMENT ON GERMAN LOAN, RATHER THAN HAVING TO USE IMF DRAWING TO MEET CURRENT FINANCING NEEDS, AS ORIGINALLY EXPECTED. (PROVISIONAL BALANCE OF PAYMENTS DATA FOR FIRST HALF OF FEBRUARY SHOW SURPRISING OVERALL SURPLUS ON MONETARY MOVEMENTS OF ABOUT DLR 76 MILLION AND CUMULATIVE DEFICIT SO FAR IN 1975 OF ONLY DLR 274 MILLION. IT SEEMS QUITE POSSIBLE THAT THERE WAS ALSO SURPLUS FOR ENTIRE MONTH OF FEBRUARY.)

3. GOI ACTION IS EVIDENTLY MOTIVATED BY FACT THAT INTEREST RATE IS LOWER THAN THAT ON GOLD LOAN AND THAT DEBT TO IMF PROBABLY HAS LESS NEGATIVE EFFECT ON ITALY'S FOREIGN CREDITWORTHINESS THAN DOES DEBT IN FORM OF GOLD COLLATERAL LOAN. REMAINING DLR 1.5 BILLION OF GOLD LOAN WILL BE ROLLED OVER FOR ADDITIONAL SIX MONTHS (UP TO MAXIMUM OF TWO YEARS FROM DATE OF BORROWING) AS AGREED BETWEEN TWO CENTRAL BANKS (REFTEL).

4. IN MAKING ANNOUNCEMENT OF REPAYMENT, COLOMBO SAID, "THE DRAWING FROM THE IMF AND THE REPAYMENT TO THE BUNDESBANK TAKE PLACE AT A TIME WHEN OUR BALANCE OF PAYMENTS IS SHOWING SIGNS OF A CLEAR-CUT IMPROVEMENT. NATURALLY, ALL OF OUR BALANCE OF PAYMENTS PROBLEMS ARE NOT YET RESOLVED, SINCE THERE IS STILL A LARGE DEFICIT ON CURRENT ACCOUNT RELATED TO OUR IMPORTS OF PETROLEUM. BUT, THE CURRENT SITUATION PERMITS US TO VIEW THE NEAR TERM FUTURE WITH CONFIDENCE AND TO RESPECT OUR FOREIGN COMMITMENTS.VOLPE

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